

TSAWG Illustrative Workbook Explanation

This Illustrative Workbook was created to provide context into the tax shift conversation. Designed as an aid, the Illustrative Workbook shows the possible changes in municipal property taxes for a set of example properties by altering two key variables;

- changes to the rate of increase of the overall tax supported budget; and
- changes to the Tax Share of municipal property taxes contributed by the Residential and Non-Residential base.

The Illustrative Workbook uses three charts to compare the 2019 property tax rates and revenues with the preliminary projections for 2020. Each chart uses a different Municipal Budget scenario. Each chart is then broken down into three columns of Residential vs. Non-Residential Tax Share projections.

Each of the examples in the Illustrative Workbook provides the calculations and outcomes under three different budget increases, and three different tax share assumptions using the 2019 property assessment roll and the 2020 projected assessment roll. It is important to note that the tax bill projections are the Municipal share only, and do not include the share the Provincial Government takes in the Education Property Tax.

The Municipal Budget and the Tax Share can be made changed independent of one another. Changes to the Municipal Budget would affect both the Residential and Non-Residential class equally, while changes to the Tax Share would not.

Different Municipal Budget increases and different Tax Share scenarios will affect the change in projected municipal taxes for 2020. Due to the “bow wave” effect of the application of the 2017, 2018 and 2019 Phased Tax Program (PTP), many example Non-Residential properties could experience municipal property tax increases even with no overall Municipal Budget increases even if the Tax Share of the Non-Residential class is decreased.

Scenarios

Scenario 1 assumes that the “One Calgary Budget” increase of 3.03% is maintained and shows the effect of a tax share of A) 49% Res, 51% NR B) 50% Res, 50% NR C)

Scenario 2 assumes that the “One Calgary Budget” is revised to an increase of 1.5% and shows the effect of a tax share of A) 49% Res, 51% NR B) 50% Res, 50% NR C) 52% Res, 48% NR.

Scenario 3 assumes that the “One Calgary Budget” is revised to an increase of 0% and shows the effect of a tax share of 49% Res, 51% NR B) 50% Res, 50% NR C) 52% Res, 48% NR.

Scenario 1A represents “status quo”, while Scenario 3C represents the largest reduction to Non-Residential taxes and the closest to a 0% overall increase for most businesses.

Sample properties and % change comparisons

Each of the property examples use the estimated change in assessment value, combined with the change in taxes rate under each Municipal Budget and Tax Share assumption. Since not all Non-Residential property assessed values change at an equal rate, and the 2019 PTP rebate amount was different for all properties, measuring YoY changes in actual taxes paid for the purpose of comparing 2020 projected taxes is significantly more complicated than it is for Residential properties.

There is no reasonably accurate average for Non-Residential properties. To better illustrate the examples, a number of sample properties have been provided to demonstrate the actual taxes paid in 2019 (prior to and after application of the PTP) and what would be projected for 2020.

As an example, under Scenario 1A) a 17th Ave retail property could potentially see an 15.9% increase in actual Municipal property taxes paid over 2019 (after PTP), vs. a 2.9% increase in Scenario 3C). This does not mean that all 17th Ave retail properties will see the same YoY change. Even properties within the same general category will change differently from the average, but the examples do represent a typical property within the class. For the same property comparing the 2019 Municipal property taxes before the PTP credit, there could possible be a 12% reduction (scenario 1A), and a 22% property tax decline (scenario 3C).

PTP and the “Bow Wave” effect

The 2019 PTP Rebate was implemented in June to mitigate large YoY increases seen by most Non-Residential taxpayers. The program used \$131M to cap the YoY change in Non-Residential Municipal property taxes at -10% over 2018. This did not include the business tax consolidation and Provincial portion of the tax bill. As in 2017 and 2018, the PTP is based on the Municipal tax increase from the previous year (as well as other qualifying criteria). As all properties assessment values change at a different rate, no two properties qualify for the same amount of PTP rebate.

Put simply, the “bow wave” is the consequence that results from PTP rebate that was applied to Non-Residential properties. The 2019 Municipal property tax owed by Non-Residential property owners was offset by PTP in their balance owed, but that didn’t reduce their assessed Municipal property tax amount. If a Non-Residential property owner owed \$1000 and had a PTP rebate of \$300, that didn’t permanently lower their assessed Municipal taxes to \$700; it remained at \$1000. That means that, even if nothing changed in 2020, their Municipal property taxes would be \$1000.

The “bow wave” is the total amount of the difference between the assessed Municipal property tax and the post-PTP Municipal property tax owed, cumulative, across all Non-Residential properties.

Calculations



Municipal Taxes / Taxable Assessment Base = Municipal Property Tax Rate

Provincial Taxes / Taxable Assessment Base = Provincial Property Tax Rate

Provincial Property Tax Rate + Municipal Property Tax Rate = Total Property Tax Rate

The assessment base (denominator) is determined annually through the market value assessment process and is not a determination made by council. The Provincial taxes are determined through equalized assessment at the Provincial level and not determined by council. The tax amount required for the

Municipal Budget is the only item in the property tax rate formula that is determined by council, thus it is isolated as the focus of the following explanations and scenarios.

Property Tax Bills: Individual property tax bills are calculated by multiplying the annual property assessment value by the total property tax rate (Mill Rate) for that class of property. For the purpose of the below examples, the Municipal portion is the focus as it is the portion that can be determined by council.

Annual Assessed Value X Municipal Tax Rate = Municipal Property Tax Bill

Annual Assessed Value X Provincial Tax Rate = Provincial Property Tax Bill

Provincial Tax Bill + Municipal Tax Bill = Total Property Tax Bill

Terms

Municipal Property Tax Budget (Increase): Of the 2019 operating budget approx. \$1.95B (45%) of the total was funded by property taxes. The “One Calgary Budget” currently calls for a 3.03% increase in property taxes collected. The 3.03% refers to the relative increase in taxes collected as compared to the previous year. Changes to the pre-determined 3.03% increase are the first of the two variables that the following scenarios explore.

Tax Share: Tax share refers to the portion of property taxes that are collected from the Residential and Non-Residential assessment bases. In 2019, approx. 51.3% of Municipal property taxes were collected from the Non-Residential base, while 48.7% was collected from the Residential base. This split is the second of the two variables that the following scenarios explore.

Tax Rate Ratio: The tax rate ratio is a measure of the property taxes which are paid by a Non-Residential property as compared to a Residential property. For 2019, the Municipal NR/Res ratio was 4.22:1, which means that a Non-Residential property paid 4.22 times more Municipal property taxes than a Residential property, on the same assessed value. The tax rate ratio can be most heavily influenced by the tax share described above and is an important consideration as Provincial legislation mandates it cannot exceed 5:1. The tax rate ratio is the result of the proportionate tax share between Non-Residential and Residential Municipal tax rates.

Decisions regarding changes in the Municipal Budget and the Tax Share can be made independent of one another. Changes to the total Municipal budget would impact both the Non-Residential and Residential class equally, while changes to the tax share would not. Each of the scenarios in the workbook provides the calculations and outcomes under the three proposed Budget scenarios, combined with three different tax share assumptions. The table below estimates the tax rate ratio within each Tax Share assumption:

Municipal Tax Rate Ratio Outcomes Summary			
Current (2019) Ratio	4.22 (Share = 48.7%Res, 51.3%NR)		
Scenario	49% Res, 51% NR	50% Res, 50% NR	52% Res, 48% NR
2020 Forecast – 3.03%	3.63	3.44	3.14
2020 Forecast – 1.5%	3.59	3.43	3.12
2020 Forecast – 0%	3.57	3.41	3.11